NATURAL RESOURCES





Economic and Revenue Forecast

Fiscal Year 2009
Second Quarter

November 2008

WASHINGTON STATE DEPARTMENT OF
Natural Resources
Doug Sutherland - Commissioner of Public Lands

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now and forever

Acknowledgements

The Washington State Department of Natural Resources' (DNR) *Economic and Revenue Forecast* is a collaborative effort. It is the product of information provided by private individuals and organizations, as well as DNR staff. Without their contributions the quality of the Forecast would be greatly diminished.

I want to extend special thanks to those who provided information as part of our purchasers survey. These busy individuals and companies willingly provided information that is essential for forecasting timber removal volume.

Many DNR staff also provided data, including forecasts of revenue flows for their areas of responsibility and made significant contributions to the accuracy of the forecast. I especially want to thank **Jed Herman, Jon Tweedale, Rich Doenges, Chris Hanlon-Meyer, Pam La Due, Paul Penhallegon, Tom Heller**, and **Karen Jennings**. Many other DNR staff provided valuable and constructive feedback on drafts of this forecast, including **Dorian Smith, Jim Smego, Dan Walters,** and **Bob Van Schoorl**. In the final analysis, the views expressed are my own and may not necessarily represent the views of the reviewers.

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Acronyms and abbreviations

Bbf	Billion Board Feet
CDN$	Canadian dollar
CPI	Consumer Price Index
CVA	Clear Vision Associates
CY	Calendar Year
DNR	Washington State Department of Natural Resources
FDA	Forest Development Account
Fed	U.S. Federal Reserve Board
FOMC	Federal Open Market Committee
FY	Fiscal Year
GDP	Gross Domestic Product
ISM	Institute for Supply Management
mbf	Thousand board feet
mmbf	Million board feet
NAFTA	North American Free Trade Agreement
OPEC	Organization of Petroleum Exporting Nations
PPI	Producer Price Index
RCW	Revised Code of Washington
RISI	Resource Information Systems, Inc.
RMCA	Resource Management Cost Account
SAAR	Seasonally Adjusted Annual Rate
US$	U.S. dollar
WWPA	Western Wood Products Association
WTO	World Trade Organization
Y	Japanese yen

Preface

This *Economic and Revenue Forecast* projects revenues from Washington State trust lands managed by the Washington State Department of Natural Resources (DNR). These revenues are distributed to management funds and beneficiaries as directed by statute. The forecast information is organized by source, fund, and fiscal year.

DNR revises its Forecast quarterly to provide updated information for trust beneficiaries and department budgeting purposes. (See the Forecast Calendar at the end of this section for release dates.) We strive to produce the most accurate and objective forecast possible, based on the current policy direction of the department and available information. Actual revenues will depend on the department's future policy decisions and market conditions beyond the department's control.

This Forecast covers fiscal years 2009 through 2013. FY 2008 values are preliminary actuals. Fiscal years for Washington State government begin on July 1 and end on June 30. For example, FY 2009 runs from July 1, 2008, through June 30, 2009.

The baseline date (the point that designates the change over from "actuals" to forecast) for this Forecast is October 31, 2008. The forecast beyond that date is based on the most up-to-date market information available at the time of publication.

Unless otherwise indicated, values are expressed in nominal terms without adjustment for inflation. Therefore, interpreting trends in the Forecast requires care to separate inflationary changes in the value of money over time from changes attributable to other economic influences.

Each DNR Forecast builds on the previous one, emphasizing ongoing changes. Before preparing each Forecast, international and national macroeconomic conditions and the demand and supply for forest products are re-evaluated. The impact on projected revenues from DNR-managed trust lands is then evaluated given the current economic conditions and outlook.

DNR Forecasts provide information that is used in the *Washington Economic and Revenue Forecast* issued by the Washington State Economic and Revenue Forecast Council. The release dates for DNR's Forecasts are determined by the state's Forecast schedule and prescribed by RCW 82.33.020. The table below shows the anticipated schedule for future DNR's Economic and Revenue Forecasts.

Economic Forecast Calendar

Forecast Title	Baseline Date	Draft Data Release Date	Final Data and Publication Date (approximately)
March 2009	End Q2, FY 2009	Mar. 6, 2009	Mar. 31, 2009
June 2009	End Q3, FY 2009	June 5, 2009	June 30, 2009
September 2009	End Q4, FY 2009	Sept. 4, 2009	Sept. 30, 2009
November 2009	End Q1, FY 2010	Nov. 6, 2008	Nov. 30, 2008

Introduction and Forecast Highlights

DNR's September 2008 Forecast began with a caveat that the forecast was being made during a time of high uncertainty. In the last two months, it has become all too apparent that the U.S. is in a recession and that the recession is likely to last well into next year. Housing starts are not expected to recover until after the overall economy has recovered. And the forest products industry will not recover until after housing recovers.

As a result, we have reduced our forecast of DNR stumpage prices by an average of 13 percent during the current and next two fiscal years. This resulted in a reduction in timber revenue by $60.6 million dollars or 10 percent over this same time period. In addition, forecast lease revenues are down by $1.3 million.

Current Market Conditions. DNR timber sales prices in FY 09 through October have averaged just $160/mbf. When blowdown sales are removed from the calculations, the average price of the remaining "regular sales" increases to $214/mbf, well below the $250/mbf our model projected for the period based on current log prices. We believe that these sales hold a higher than normal proportion of low valued volume that explains the difference between projected and actual prices. In the current Forecast, timber sales prices are projected to hold at $250/mbf for the remainder of FY 09 and FY 10, then to increase to $310/mbf in FY 11.

Changes in Forecast Revenue in the Current Biennium. Forecast revenues for FY 2009 are down $7.5 million, or 4 percent. This change includes a $7.6 million reduction in timber revenue that is partially offset by an increase in forecast lease revenue by $0.1 million primarily from higher geoduck revenues.

Changes in the Next Biennium. Forecast revenues for the next biennium are down by $54.3 million, or 10 percent. This change includes a $52.9 million reduction in timber revenue and a reduction of $1.4 million in lease revenue primarily from commercial real estate.

Risk to the Forecast. At this point we judge that the downside risk to our forecast are much greater than the upside risk. The main risk is that the recession will be longer and the recovery weaker than expected as consumers retrench. The Fed has already lowered its interest-rate target to 1 percent, but preventing further deterioration in the U.S. economy will take bold action by the Fed, Congress, and new Administration.

Even after this reduction in projected DNR sales prices, we believe that the risk to our stumpage price forecast remains mainly on the down side—that prices could fall over the next 18 months and that the price recovery, now projected to begin in FY 11, could be further delayed.

Almost all the risk to our near term stumpage price forecast is on the down side. Even though we aren’t expecting housing to recover until CY 2010, we have assumed no further deterioration in lumber, log, or stumpage prices. The risk to our removal volume forecast is also heavy to the down side, it assumes a significant increase in removals in FY 2010 not because of an increase in demand but because of a build up in the volume under contract.

Part 1. Macroeconomic Conditions

U.S. economy

At this point it is clear that the U.S. economy is entering into a recession. The interdependence of the world economy is facilitating the spread of the slowdown which started in the U.S. to other countries and these economies are in turn providing negative feedback to the U.S. economy.

Employment. A total of 1.2 million U.S. jobs have been lost so far this year, with half of that in the past three months. Recently released data for the week ending November 15 show that labor markets weakened further to levels not seen since 1992. Initial claims for unemployment insurance hit 542,000 for that week and even more layoffs are expected as cash-strapped firms jettison employees in an attempt to weather the oncoming economic storm.

The unemployment rate jumped a full percentage point in the last four months to 6.5 percent in October. It was 4.8 in October last year. Both Clear Vision and RISI’s forecasts show the unemployment rate peaking at 7 percent in the last half of CY 2009 but it could easily reach 8 percent. Still that would be about the same as the peak in the 1991-92 recession and nearly three percentage points below the 10.8 percent peak hit at the end of the 1981-82 recession.

Energy. The world economic slowdown has had one positive feedback—energy prices have fallen dramatically. Crude oil prices have fallen 66 percent from their $147 per barrel peak in July to below $50 today. Gasoline prices have followed suit, falling to almost half the summertime peak of over $4 a gallon to just over $2.

Energy prices could easily fall even more as OPEC seems unable to control production either on the up or down side, and the economic slowdown will continue to keep demand down. Even with lower energy prices consumers will continue to limit consumption wherever they can. We look for prices to remain low through CY 2009 but to recover in CY 2010 to the $75 to $100 range, in line with the marginal cost of producing a new barrel of crude.

The lower prices will be a big boost to the oil importing economies. The U.S. imports about 3.5 billion barrels of oil per year. Reducing prices from $135 to $50 per barrel is the equivalent of a $300 billion stimulus package. That’s three times the stimulus package currently being debated by Congress and would add more than one percentage point to GDP.

Inflation. Led by energy prices, U.S. inflation is doing one of the quickest turnarounds in memory. After a CPI surge of 1.1 percent in June and 0.8 percent in July, the index dropped by 0.1 percent in August, was unchanged in September and fell a record 1 percent in October. The Labor Department said that prices declined not just for energy products but for new cars, airline fares and apparel, though increases did occur in medical care and rents. In the last six months headline inflation went up at an annual rate of just 1.6 percent, while core CPI has slowed to an annual growth rate of 1.8 percent.

Going forward, the weak economy will make it tough for businesses to raise prices, while elevated unemployment will hold wage pressures in check. The fears of inflation are now being replaced by whispers of deflation; this leaves the Fed free to stimulate the economy without concern over sparking inflation.

Interest Rates. The Fed cut interest rates by a further 50 basis points in October 29, bringing the overnight target rate to just 1.0 percent. We expect the drop in inflationary pressure and deteriorating economic growth will result in further rate cuts. The problem is the Fed is running out of room, and will use its remaining rate cuts sparingly, saving its remaining ammunition for some unforeseen emergency. Still the rate is expected to be just one half of one percent by mid 2009 as the economy continues to deteriorate.

The 10-year Treasury is down to just 3.5 percent. The 30-year fixed-rate mortgages have actually increased over the last six month but are expected to remain low and could even fall next year. RISI has them remaining in the 6.0 percent to 6.25 percent range while Clear Vision expects mortgage rates to fall below 5.0 percent next year, to briefly drop below 4 percent in late CY 2009 and remain below 5.25 for the remainder of the forecast period.

Exchange Rates and Trade. Ironically, the return of risk premiums triggered by the U.S. financial crisis has resulted in an increase in the demand for U.S. dollar denominated investments, resulting in a rise in the value of the U.S. dollar relative to its trading partners. In addition to the increased demand for the dollar, the currencies of the developed world have weakened as Europe and England reduce their interest rates as the attention of their central banks is turned from fighting inflation to propping up their sagging domestic demand. Commodity producing countries like Canada and Russia are seeing their currencies fall along with the price of the oil and other commodities. Japan, despite clearly falling into recession, is the exception to the rule as the Yen benefits along with the U.S. dollar from the flight to safety.

The dollar increased by over 10 percent from this summer’s lows and now stands where it did in January 2007. This is creating a head wind for U.S. trade which had been about the only bright spot in the U.S. economy.

U.S. Gross Domestic Product. The preliminary numbers show that GDP fell in the third quarter. RISI expects Growth in Real GDP to be negative for the second half of CY 2008 and for all of CY 2009. Rising unemployment in 2009 will dampen consumer income and spending so that even when growth resumes during the second half of 2009, it will be subpar into CY 2010. Clear Vision forecasts a quicker recovery in the second half of CY 2009 with strong growth in CY 2010.

World economy

The U.S. recession and complications due to the global credit crisis will lead to considerable weakness in the global economy ─ particularly in the developed countries. Japan, Europe and the United Kingdom are all facing serious slowdowns. The International Monetary Fund (IMF) projects world growth to slow from 5 percent in 2007 to 3.75 percent in 2008 and to just over 2 percent in 2009, with the downturn led by advanced economies. The IMF expects growth in developed countries to be just 0.3 percent in both CY 2008 and 2009. Growth in developing countries is expected to slow from 8 percent to 6 percent over the same time period.

One of the reasons the developing world is expected to fare better is China's response to the global economic situation. Real Chinese GDP growth slowed from almost 12 percent to 9 percent on a year-over-year basis in the third quarter of CY 2008. Exports account for around 40 percent of Chinese GDP and falling foreign demand is having an impact on China's headline growth numbers.

However, Chinese authorities who six months ago were trying to cool their economy to control inflation are already cutting interest rates and taking other steps to prevent a severe slowdown. Five consecutive years of above ─10 percent growth has left the Chinese government with significant foreign currency reserves that it can, and will use during the downturn to stimulate domestic demand.

RISI's current forecast, shows Chinese real GDP will slow to 8.5 percent in 2009 and then rebound mildly in 2010 to 9.0 percent. Positive Chinese growth will be key to preventing a global recession. If this happens, China's role as a major world economic power will be confirmed.

Part 2. Log and Lumber Industry Factors

This chapter focuses on the specific factors that affect the stumpage values and overall timber revenues received by the Washington State Department of Natural Resources (DNR).[1] Stumpage prices reflect demand for lumber and other wood products, timber supply, and regional and local milling capacity. The demand for lumber and wood products is directly related to the demand for housing and other end-use markets.

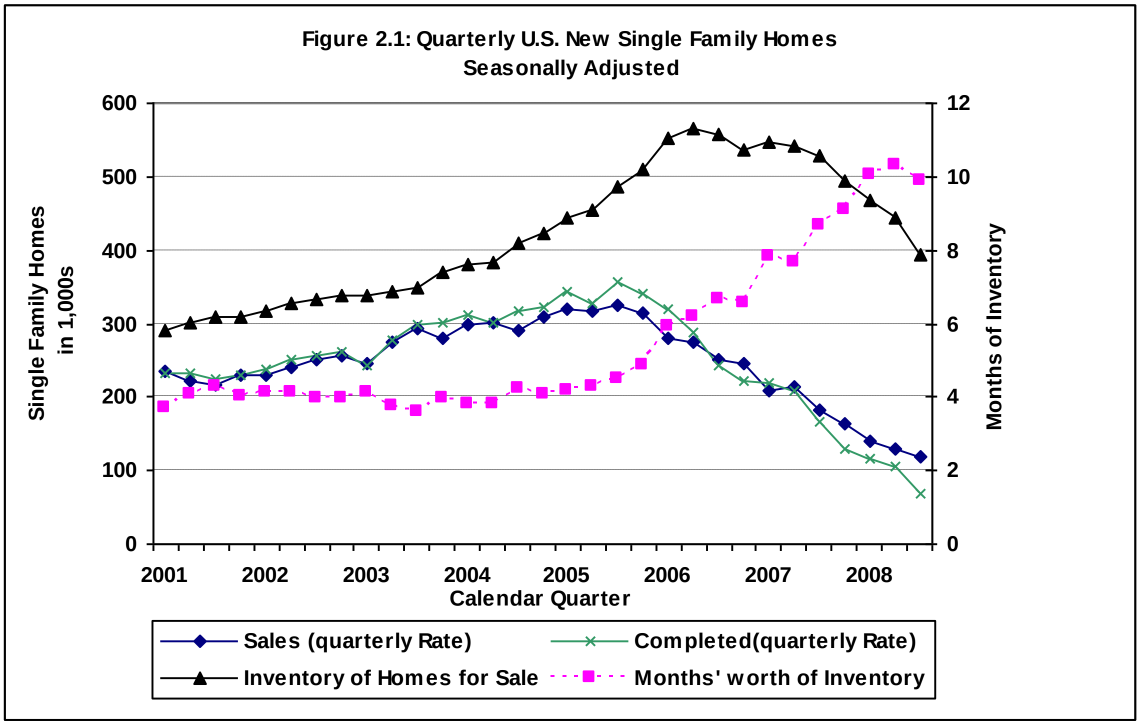
U.S. housing market

The housing market continues to move toward an uncertain bottom. Existing home sales appear to be leveling off. However, new home sales and housing starts continue to tumble and likely will not level off until late next summer. Even after they hit bottom, housing starts aren't expected to increase above one million units until late 2009, averaging just 900,000 for the full year, the same as 2008, and just 1.4 million in CY 2010. Starts aren't expected to fully recover until 2011. Meanwhile, foreclosures will continue to increase in 2009, dampening new home prices. Overall, the national average new price will decline about 10 percent over the next 12 months, albeit with wide local differences.

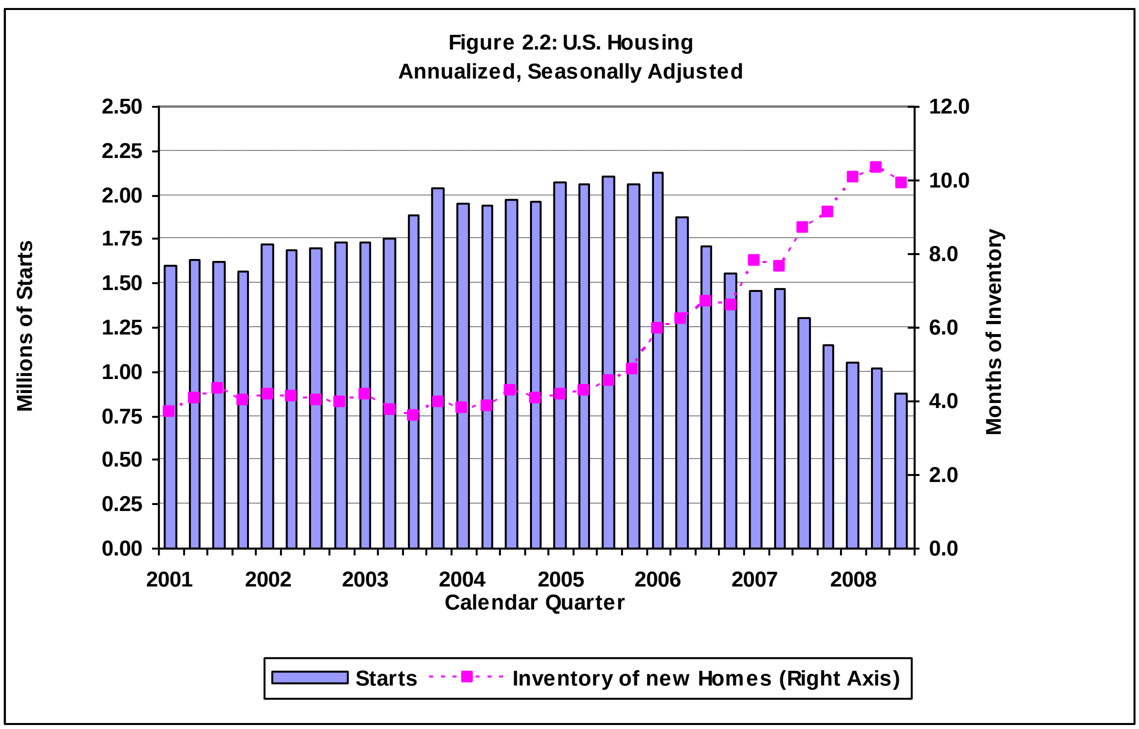
As shown in **Figure 2.1**, sales of new single family homes fell by 8 percent to 119,000 units in the third quarter, while new single family homes completed for sale fell by over 35,000 to just 68,000 units. The good news is that the inventory of completed but unsold homes fell by almost 50,000 units to just under 400,000 units. If this keeps up, as we forecast, the inventory of unsold homes will be below normal (about 325,000 units) by March next year. Still the inventory will likely fall even further, over shooting on the down side. The months' worth of inventory has finally begun to fall, as the number of new homes in the inventory is falling more than the sales level. At current sales levels, there are 9.9 months' worth of unsold inventory of new single family homes, down from a peak of 10.3 months' worth last quarter.

Clear Vision forecasting service believes that single family starts are near the bottom and will start rising early next year but that inventory will continue to fall to 240,000 units by late 2009 as housing sales outpace completions.

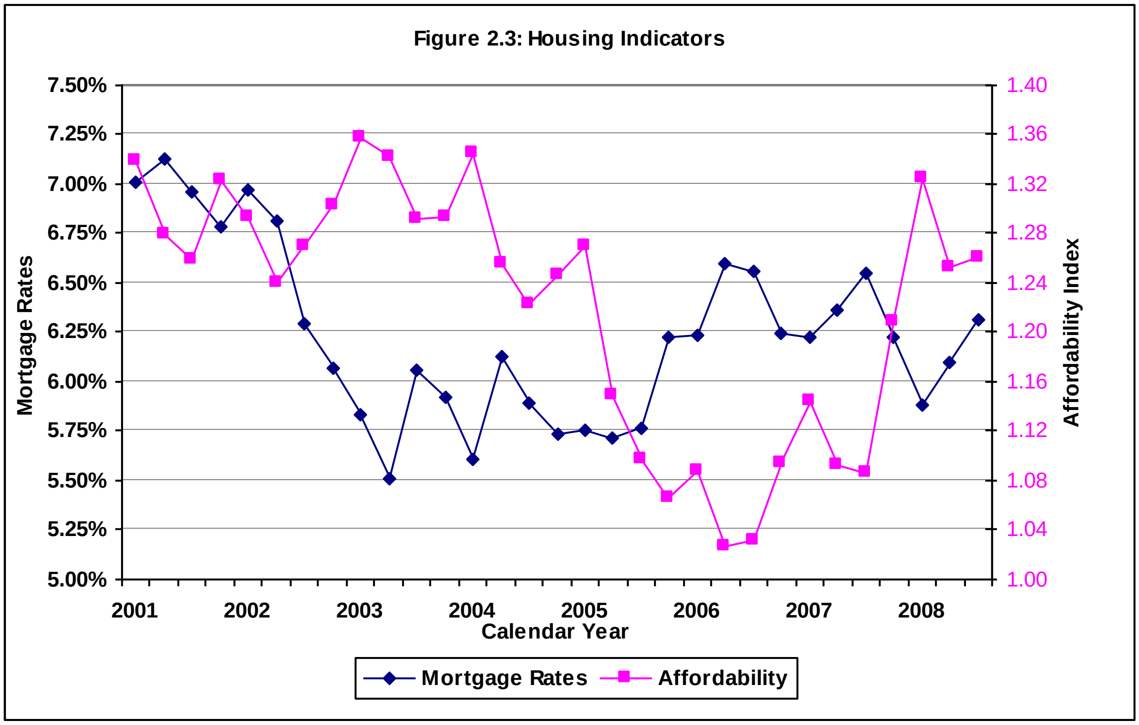
[1] Although DNR timber sales are a significant source of timber in the Pacific Northwest, volumes generally are not sufficiently large enough to affect prices.



Housing starts for all of CY 2007 were 1.35 million, down 25 percent from CY 2006. For the last quarter, starts have averaged just 879,000 SAAR (seasonal adjusted annual rate), down an additional 32 percent from the same period last year (**Figure 2.2**). Housing starts fell to just 817,000 SAAR in September — the first time housing starts have dipped this low since January of 1991.



RISI expects housing starts to fall to around 720,000 SAAR level in the first quarter of CY 2008 and to gradually increase next year to an average of just 865,000 million for all of CY 2009 and just 1.4 in CY 2010.



The **Affordability Index** is the ratio of the income required to qualify for the median-priced existing single-family home and the median family income. In September 2008 the affordability index was \$60,730/\$44,928 or 1.35.

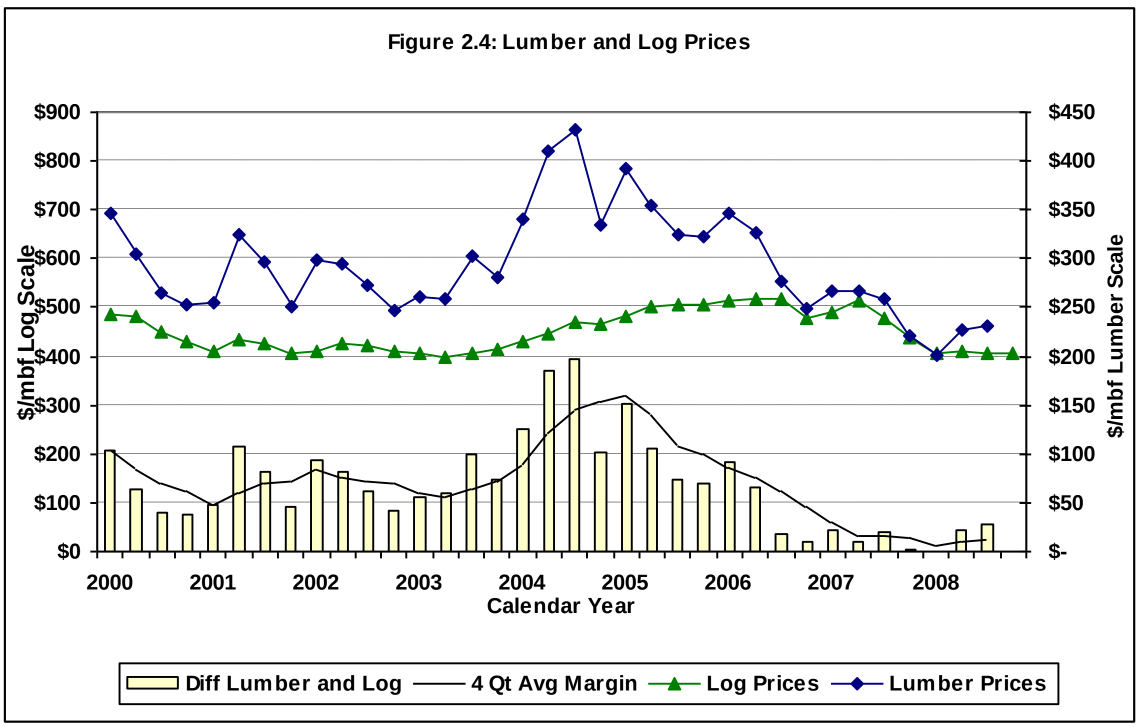
While we have been saying this for quite sometime as housing markets have continued to fall, it remains true, there are some favorable conditions emerging that lay the foundation of a recovery. Thirty-year mortgages remain in the 6.0 to 6.3 percent range, and are still low by historic standards. With lower housing prices and low interest rates, affordability is improving and increased 1.35 in September **(Figure 2.3)**.

As mentioned above, housing prices are expected to fall another 10 percent over the coming year and while RISI expects interest rates to remain at current levels, Clear Vision is forecasting a significant reduction in interest rates. If either or both of these occur then affordability will continue to improve. The underlying demographic support for housing remains strong and, as mentioned above, the inventory of unsold homes is moving down both in absolute terms and in months' worth and with sales having been so low for so long, pent up demand must be building.

Lumber, logs, and stumpage prices

Inflation-adjusted lumber production costs moved down across all regions of North America in 2007 as total softwood lumber capacity fell for the first time in more than a decade. Rapid lumber capacity expansions in the US West Coast in the first half of the decade (an average of 6 percent per year between 2003 and 2005) significantly increased the demand for stumpage in the region. At the same time, the increased production drove coastal lumber prices to record lows (adjusted for inflation) shrinking returns (see **Figure 2.4**.)

This collapse in mill profitability forced a shakeout of older mills in 2007, which will continue into 2009. One consequence of this capacity turnover (new efficient mills replacing older inefficient mills) is that average production costs in the West Coast have fallen relative to other production regions. RISI estimates that after adjustments for quality, costs in the US West Coast have decreased by 17 percent and are now 15 percent lower than those in the U.S. South or British Columbia. However, the recent fall in the Canadian dollar may have erased much of this advantage with British Columbia.



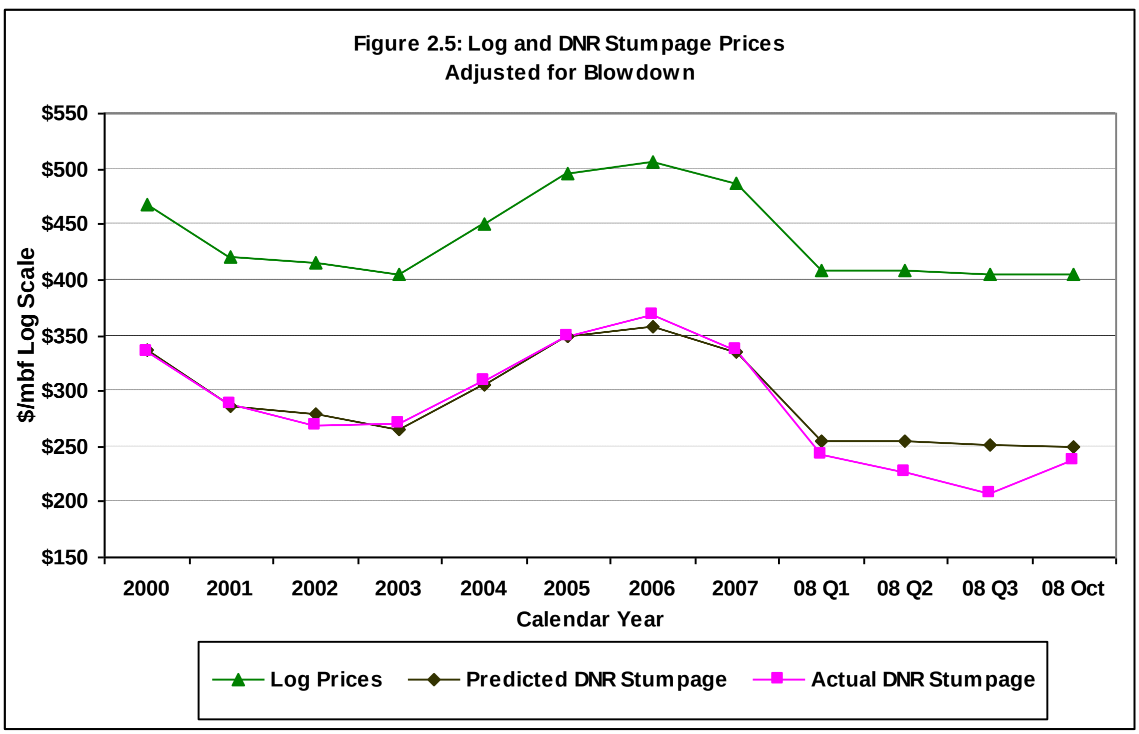
Note: The volume of lumber (measured in mbf lumber tally) actually milled from logs normally exceeds the Scribner volume measurement. The graph above uses different axes to adjust for the difference in the two measurement scales. Here the relationship is assumed to be 2:1. “Margin” is defined as the average price difference between lumber and logs after an adjustment for the two different measurement scales.

Lumber and log prices. Coastal softwood lumber prices have been on the rise for most of the year. They are up 14.4 percent from the lows in March, but are still 9.7 percent below this time last year (see **Figure 2.4**). Over the same time period, log prices have increased just 1.6 percent and are down 8.6 percent from last year at this time. As a result, the margin (differential between log and lumber prices) has increased to $57 in log scale and is now the highest it has been since the second quarter of CY 2006. The margin has averaged $137 since 2000 so it is still low by historical standards. Nonetheless, West Coast mills are making more money today than they have in two years.

RISI has significantly downgraded its outlook for lumber markets over the next year, but has not lowered its forecast of lumber prices significantly as it believes mills are ready to reduce operating rates in order to keep supply even with the current levels of demand. Lumber inventories are already low throughout the supply chain. And as mills are operating at or even below variable cost, operating rates are expected to fall below 65 percent this winter as mills take long holiday breaks. If so, this will keep prices at current levels and even result in some seasonal price increases next spring. Capacity utilization will remain below 80 percent next year even in the peak months and will average only about 75 percent for all of CY 2009.

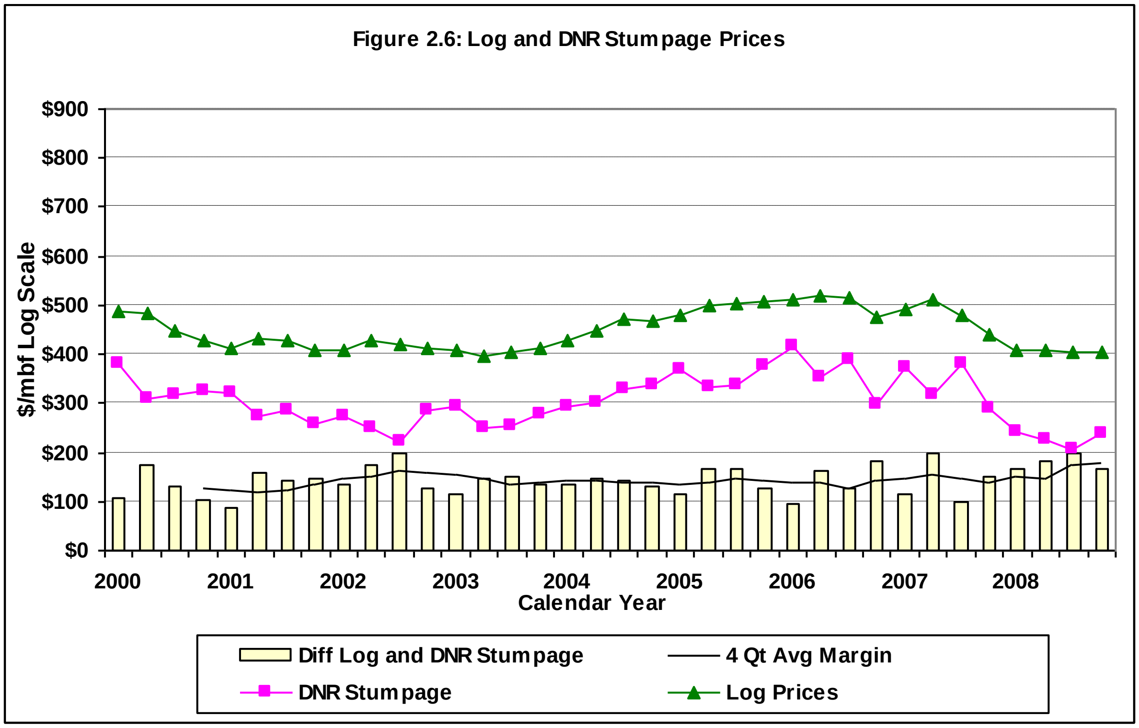
Clear Vision doesn't expect lumber demand to return to trend until CY 2011 and to peek along with log prices in CY 2012.

Log and DNR stumpage prices. Figure 2.5 shows average annual log prices and the predicted DNR stumpage prices given those log prices vs. actual stumpage prices adjusted for blowdown[2]. In the second and third quarter of CY 2008, DNR stumpage prices were $36/mbf less than predicted by the economics model. Even though DNR's prices were adjusted for blowdown sales, the remaining sales offered during the last two quarters contained a high level of salvage material.



[2] DNR actual prices calendar year 2008 through August and the third quarter are adjusted for blowdown sales (timber damaged in a December 2007 storm in southwestern Washington). The model predicts an average harvest and delivery cost of $155/mbf in FY 08.

Over the past eight years, log prices have been a good predictor of DNR's stumpage prices. Assuming that 1) log prices remain at their current level, and 2) future sales are of average quality, DNR stumpage prices excluding blowdown sales are projected to average $250/mbf.



Note: "Margin" is defined as the difference between the average price of lumber and DNR stumpage.

Figure 2.6 shows quarterly DNR-composite log prices and DNR regular stumpage prices (excluding blowdown sales) and the difference, or margin, between them. During the first three quarters of CY 2008 log prices have remained stable while DNR regular stumpage prices have continued to fall. This is due to a combination of lower quality logs being offered and higher margins. The margin between the DNR-composite log price and DNR stumpage average price of $155/mbf has been relatively constant over time, growing by an average of $6/mbf (2 percent) per year.

Part 3. DNR's Revenue Forecast

This revenue forecast includes revenues from timber sales, upland leases, and aquatic leases. It also forecasts revenues to individual funds. Some caveats about the uncertainty of revenue forecasting are summarized at the end of this section.

Timber revenues

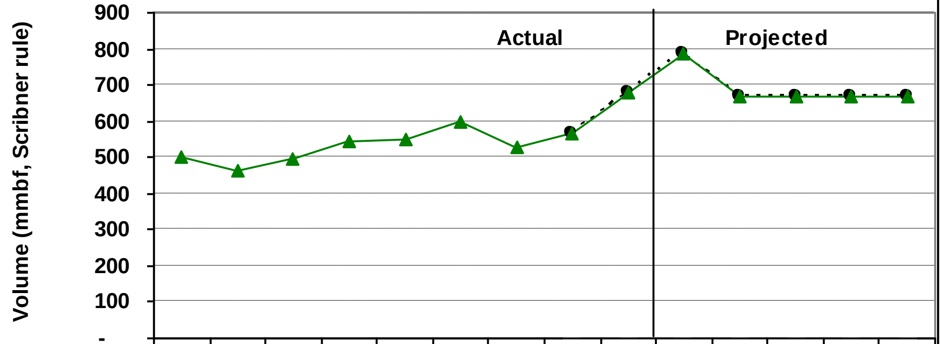
The Washington State Department of Natural Resources (DNR) sells timber through contracts. The department determines the total volume offered for sale each month, and the price is set at the time of auction. Revenues are collected at the time of harvest (removal). The purchaser determines the actual time of harvest within the terms of the contract. Contracts sold during FY 2008 through January vary in duration from 3 months to 3 years, with an average (weighted by volume) of 23 months.

Timber that is sold but not yet harvested is referred to as "volume under contract" or "inventory." When timber is sold, it is added to the inventory and removed from the inventory when it is harvested.

Timber Sales Volume. There was no change in the planned timber sales level between the September and the November Forecast.

The sales level for FY 2008 of 677 mmbf was the highest level of sales by the department since 1990. After the temporary increase in sales in FY 09 due primarily to the added blowdown sales (66 mmbf) and a backlog of regular sales (51 mmbf), planned sales are expected to return to the sustainable harvest level for the remainder of the forecast period (see **Figure 3.1** for detail).

Figure 3.1: Forecast Sales Volume

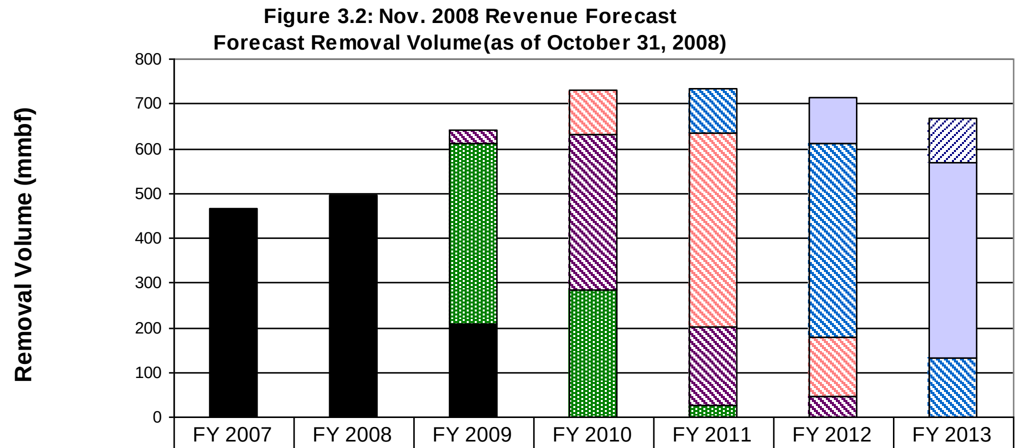


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Previous Forecast								565	677	784	667	667	667	667
Current Forecast	503	461	495	542	548	599	528	565	677	784	667	667	667	667
Change								-	-	-	-	-	-	-
Percent change								0%	0%	0%	0%	0%	0%	0%

Fiscal year ending June 30

Timber Removal Volume. For each Forecast, we survey the purchasers of outstanding inventory to find out their planned timing of harvests. The latest purchasers survey, conducted in the first week of October, indicates that purchasers have not significantly changed their harvest plans for the volume they have under contract. Purchasers plan to harvest 60 percent of the volume under contract this fiscal year (FY 2009), followed by 36 percent next biennium.

Through October (the first four months of FY 2009) purchasers removed 208 mmbf. Based on the purchasers survey, we estimate that removals during the last 8 months of FY 09 will be 432 mmbf. Most (405 mmbf, or 94 percent) is expected to come from volume under contract, including the blowdown sales. We project that purchasers will remove 27 mmbf from new sales (sold after October 31) during FY 2009, which would bring the total removals to 640 mmbf, 40 mmbf or 6.2 percent less than what was forecast in September (see **Figure 3.2**). A part of the reduced volume (14 mmbf) is the result of a negative inventory adjustment.



	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Sales in FY 13				-	-	-	100
Sales in FY 12				-	-	100	434
Sales in FY 11		-	-	-	100	434	133
Sales in FY 10		-	-	100	434	133	-
New Sales in FY 09		-	27	346	173	46	-
Sales Under Contract		-	405	284	28	0	-
Actual	466	495	208				
Total	466	495	640	730	735	713	667

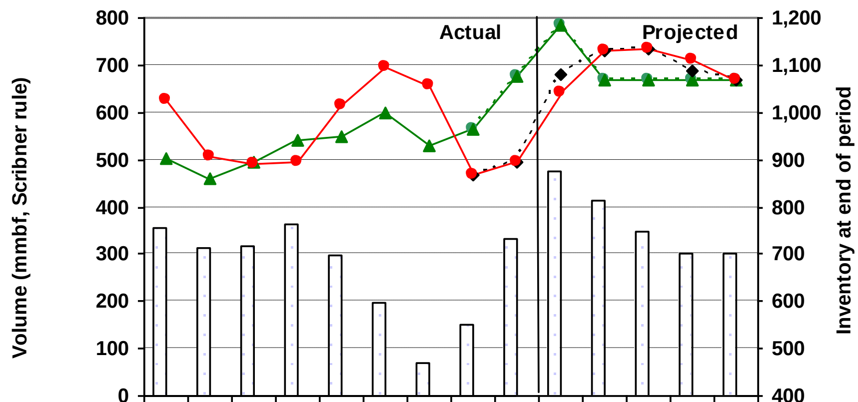
The volume under contract at the end of FY 2008 was 733 mmbf. At the end of October, the volume under contract had fallen to 717 mmbf as removals year-to-date in FY 2009 exceeded sales by 16 mmbf. With planned sales volume of 592 mmbf for the last 8 months of FY 2009 and the forecast removals of 432 mmbf, the volume under contract will increase to 877 mmbf at the end of FY 2008.

Forecasting timber removals for FY 2010 and later is more difficult to forecast. We currently do not expect housing to be in full recovery until CY 2011 (late FY 2011). Also, there likely will be some lag before the increased housing starts positively impact lumber and stumpage markets. And, given the current slowdown or outright recession in the overall economy, it seems likely that the housing recovery could be delayed even further.

Still, if the department meets its sales goal of 784 mmbf for this year, the volume under contract will be 877 mmbf, 30 percent higher than the sustainable harvest level and over 15 months' worth under contract. As mentioned above, the average contract is 23 months in length so removals will be occurring on average about 7.5 months before the end of the contract. That will make it operationally difficult though not impossible for purchasers to continue to delay removals much longer.

For now, we are holding our forecast of removals in FY 2010 and FY 2011 unchanged but the downside risk has definitely increased (see **Figure 3.3** for detail). We are increasing the forecast sales in FY 2012 by 26 mmbf corresponding to the reduction in forecast removal volume this year.

Figure 3.3: Timber Volume - Sales and Removal



	00	01	02	03	04	05	06	07	08	09	10	11	12	13
Inventory at end of Period	757	713	716	764	696	599	468	552	733	877	814	746	700	700
Months worth of Inventory	16.0	17.2	17.4	16.5	12.7	10.6	10.0	13.8	15.5	15.4	13.3	12.4	12.2	12.6
Sales Previous								565	677	784	667	667	667	667
Sales - Current Forecast	503	461	495	542	548	599	528	565	677	784	667	667	667	667
Removals Prev. Forecast								466	495	680	730	735	687	667
Removals - Current Forcast	628	505	492	494	616	696	658	466	495	640	730	735	713	667
Change									0	-40	0	0	26	0
% Change									0.0	-6.2	0.0	-0.1	3.6	0.0

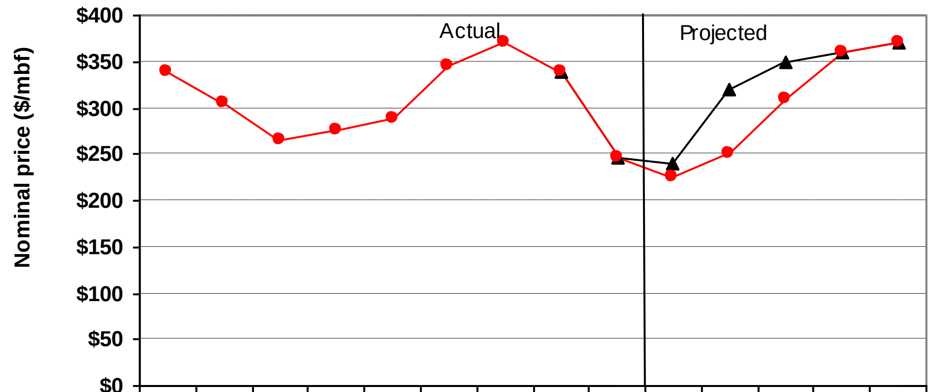
If our forecast holds, the volume under contract will increase to 877 mmbf or 15.4 months' worth at the end of FY 2009—up from just 10.0 months' worth at the end of FY 2006. The volume under contract falls to 12.6 months' worth at the end of the forecast period. It is possible that purchasers could further delay removals on individual sales and increase the average time under contract.

Timber Sales Prices. It has become all too apparent that the U.S. is in a recession and that the recession is likely to last well into next year. Housing starts are not expected to recover until a year after the overall economy has recovered. And the forest products industry will not recover until after housing recovers. As a result, we have reduced our forecast of DNR stumpage prices by an average of 13 percent during the current and next two fiscal years.

Forecast prices for FY 2009 are down by $15/mbf from that forecast in September primarily because actual prices year to date are lower than forecast. Because there hasn't been a corresponding reduction in log prices, we believe this is due primarily to the offering of lower quality timber than is normally offered during this period.

We now expect prices to remain at current levels of $250/mbf thru FY 10 rather than increasing by some $80/mbf as we predicted in September.

Figure 3.4: Timber Sales Prices - Comparison of Previous Forecast with Current Forecast, 2000-2013



	00	01	02	03	04	05	06	07	08	09	10	11	12	13
Previous Forecast								$340	$247	$240	$320	$350	$360	$370
Current Forecast	$340	$305	$264	$276	$289	$345	$371	$340	$247	$225	$250	$310	$360	$370
Change									$0	-$15	-$70	-$40	$0	$0
% Change									0.0%	-6.1	-21.9	-11.4	0.0%	0.0%

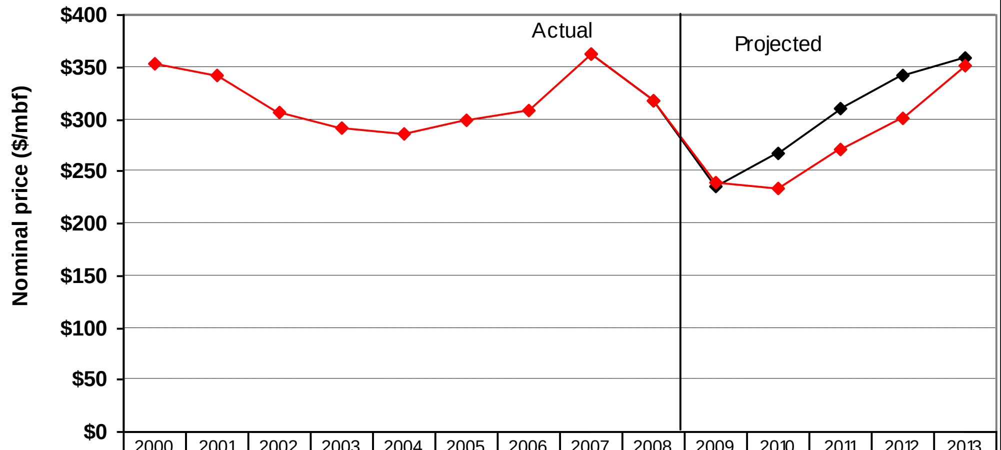
Fiscal year ending June 30

Prices are forecast to be by up $60/mbf or 33 percent in FY 2011 over those in FY 2010. We expect prices to increase another $50/mbf in FY 2012. We expect market conditions to improve significantly in FY 2011 because of a bounce-back in the U.S. housing market, and continuing growing world demand (see **Figure 3.4** for details).

Timber Removal Prices. Removal prices are a function of sales prices and removal timing. They can be thought of as a moving average of previous sales prices weighted by the volume of sales removed from each previous sales period. The weights assumed in this Forecast are shown in **Figure 3.2**. This results in a smoothing out and a lag of removal prices compared to sales prices.

Forecast removal prices in FY 2009 are almost unchanged; up by just $3/mbf or 1 percent from that in the September Forecast. The change is small primarily because most of the removals are from volume that was under contract and already sold before the September forecast was made. Removal prices in FY 2010 through 2012 are all down by about 12 percent from that forecast in September due to the lower sales prices in FY 2010 and FY 2011. Forecast removal prices are down just slightly (less than 2 percent) in FY 2013.

Figure 3.5: Timber Removal Prices - Comparison of Previous Forecast with Current Forecast, 2000-2013



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Previous Forecast								$363	$317	$236	$267	$310	$342	$360
Current Forecast	$353	$342	$307	$291	$286	$300	$309	$363	$317	$239	$233	$271	$302	$352
Change								$0	$0	$3	-$34	-$38	-$41	-$8
Percent Change								0%	0%	1%	-13%	-12%	-12%	-2%

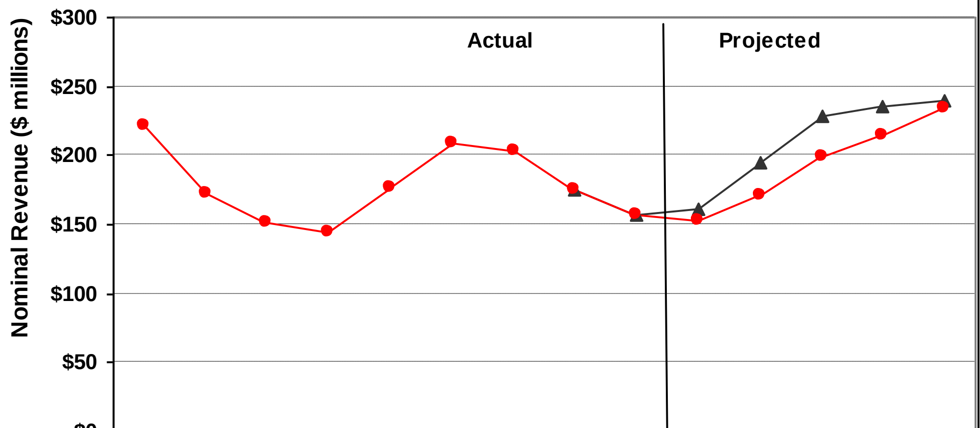
Fiscal year ending June 30

The abrupt reduction in removal prices between FY 2008 and 2009 (down $78/mbf) is due in part to the low-valued blowdown sales. Removal prices are expected to fall slightly in FY 2010 and then increase in FY 2011 and will average only about $253/mbf for the biennium. In the last year of the forecast (FY 2013) removal prices are expected to increase to over $350/mbf, a similar level to their peak in FY 07 (see **Figure 3.5** for details).

Timber Removal Revenues. Timber removal revenues are calculated by multiplying the volume harvested by the average removal price.

Forecast timber revenues are down by $7.6 million (5 percent) in FY 2009 because of a reduction in the forecast volume (down 6 percent), this was partially offset by a slight increase in the forecast removal price (up $3/mbf). Forecast revenues are down by $24.5 million in FY 2010 but down $28.4 million in FY 2011 and down $25.3 million in the 2013-15 biennium.

Figure 3.6: Timber Removal Revenues - Comparison of Previous Forecast with Current Forecast, 2000-2013



	00	01	02	03	04	05	06	07	08	09	10	11	12	13
Previous Forecast								$175	$157	$161	$195	$228	$235	$240
Current Forecast	$222	$173	$151	$144	$176	$208	$203	$175	$157	$153	$170	$199	$215	$234
Change								-	-	(7.6)	(24.5)	(28.4)	(20.0)	(5.3)
%Change								0%	0%	-5%	-13%	-12%	-9%	-2%

Fiscal year ending June 30

Even though the volume harvested in FY 2009 is projected to increase by almost 30 percent over that in FY 2008, timber revenues are expected to fall slightly ($4 million, or 2.5 percent) in FY 2009 compared to FY 2008 because of lower removal prices. Revenues will increase in FY 2010 and FY 2011 (by $17 million and $29 million, respectively) and in the last two years of the forecast by $16 million and $19 million, respectively. While timber removal prices will increase to $350 /mbf in FY 2013, similar to the level in FY 07, revenues are forecasted to be significantly higher because of higher forecasted removal volumes (see **Figure 3.6**).

Upland lease revenues

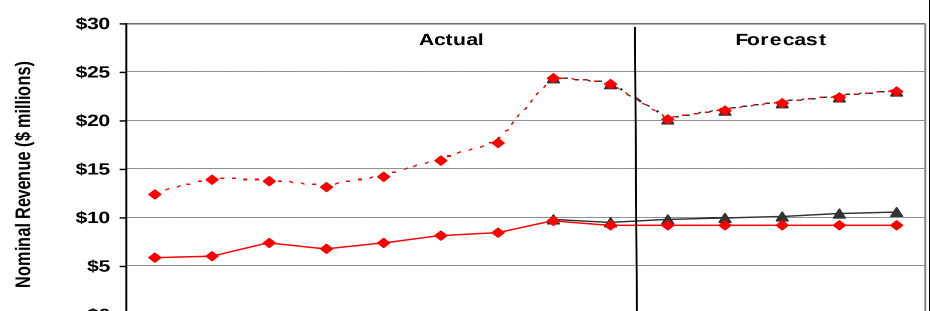
Upland lease revenues are generated primarily from leases and the sale of valuable materials other than timber. In this Forecast, upland lease revenues are divided into two categories:

1) **Commercial**—Commercial real estate leases.
2) **Agricultural and Other**—Agricultural, special use, mineral and hydrocarbon, rights-of-way, communication sites, special forest products leases, and sale of other valuable materials.

Commercial. Actual commercial real estate lease revenues were just over $9.3 million in FY 07. Last year we adjusted the forecast increase of future revenues from commercial leases down by about half because of new legislation that limited the commercial lease program and actual revenues for FY 2008 came in just under $9.2 million. Through the first quarter of FY 2009, actual revenues are about even with last year. Based on this information we adjusted down our projection of commercial revenues to a no-growth level.

Actual revenues from upland leasing in FY 2007 were above normal primarily due to one-time bonus bids from oil and gas exploration leases, agricultural prices were also strong. For all of FY 2008 agricultural leases were up sharply ($3.8 million) offsetting most of the reduction in oil and gas revenues. Through the first quarter of FY 2009, actual collections are about $160,000 off the pace needed to make our current forecast. At this point, we are leaving the forecast agricultural and other lease revenues in FY 2009 and beyond unchanged from the forecast in September (see **Figure 3.7** for details). But, at this point we judge the downward risk in agricultural and other revenues to be greater than the upside risk.

Figure 3.7: Upland Lease Revenue - Comparison of Previous Forecast with Current Forecast, 2000-2013



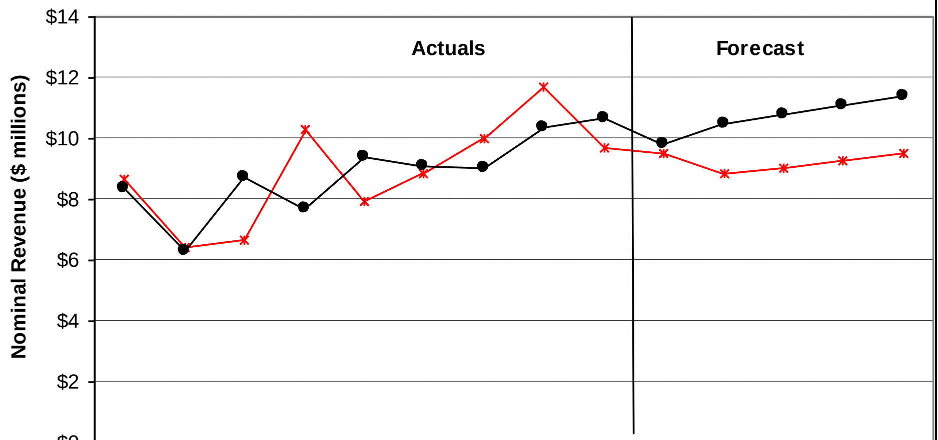
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Ag. & Other Prev. For.								24.4	23.8	20.1	21.1	21.8	22.4	23.1
Ag & Other - Current	12.5	14.0	13.8	13.2	14.2	15.9	17.8	24.4	23.8	20.1	21.1	21.8	22.4	23.1
change					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% change								0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial Prev. For.								9.9	9.6	9.8	10.0	10.2	10.4	10.6
Commercial - Current	6.0	6.0	7.5	6.8	7.4	8.2	8.4	9.7	9.2	9.2	9.2	9.2	9.2	9.2
Change								-0.2	-0.4	-0.6	-0.8	-1.0	-1.2	-1.4
% Change								-2.0%	-4.2%	-6.1%	-8.0%	-9.8%	-11.5	-13.2

Fiscal year ending June 30

Aquatic revenues

Aquatic revenues in FY 2007 were $22.1 million, up by $3.1 million, or 16 percent from FY 2006. The increase stems mainly from high geoduck prices and one-time revenues from sand and gravel royalties. Actual revenues in FY 2008 were $20.4 million as falling geoduck revenues were partially offset by higher lease revenues (see **Figure 3.9** for details).

Figure 3.8: Aquatic Revenues - Geoduck, and Lease & Other
FY 2000-2013



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Geoduck	$8.7	$6.4	$6.7	$10.3	$7.9	$8.8	$10.0	$11.7	$9.7	$9.5	$8.8	$9.1	$9.3	$9.5
Lease and Other	$8.3	$6.3	$8.7	$7.7	$9.4	$9.1	$9.0	$10.3	$10.7	$9.8	$10.5	$10.8	$11.1	$11.4

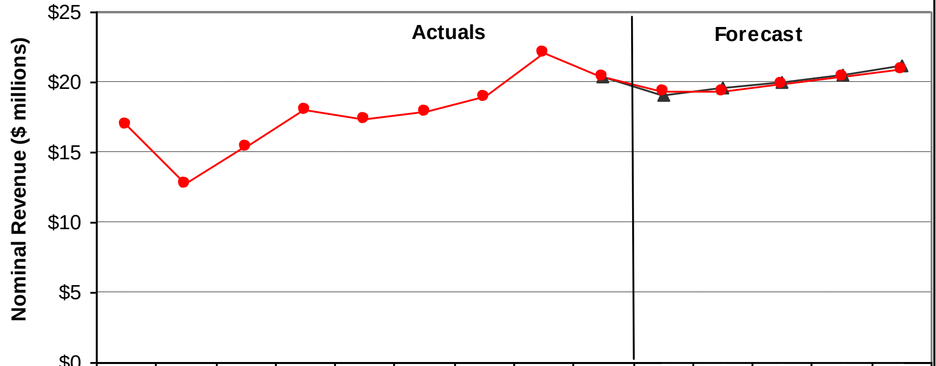
Fiscal year ending June 30

Geoduck revenues. The sustainable harvest level of geoducks or total allowable catch (TAC) is set by the state Department of Fish and Wildlife based on the biologically sustainable level. TAC is currently set at 2.2 million pounds. The department reserves 2 percent, or 44,000 lb., of that for test harvest and conservation reserves. In agreement with the tribes the harvest is being temporarily increased to compensate for previous under-harvests. We are increasing the forecast harvest for FY 2009 by 164,000 pounds as a result of this catch-up volume. We are also increasing the projected average sales price from $4.00 per lb to $4.11 reflecting better-than-forecast actual sales prices year to date in FY 2009. This resulted in a net increase in geoduck revenues by $900,000 in FY 2009 (see **Figure 3.8** for details). Despite higher-than-forecast geoduck prices so far this year, we are not changing projected geoduck revenues in FY 2010 and beyond because of the high degree of uncertainty about future prices.

Lease and other revenues. Lease and other aquatic revenues have been relatively high for the last two years (FY 2007 and FY 2008) Growing by almost 14 percent in FY 2007 and almost 4 percent last year. However, during the first quarter actual collections were below forecast levels in almost every lease category. In total they were below the forecasted level by almost $350,000. As a result we are reducing the forecast of lease revenue in all of FY 2009 by $600,000 and by $200,000 in all subsequent years.

Total forecast revenues to aquatic lands in FY 2009 are up by $300,000 as the onetime increase in geoduck revenues more than offset the deduction in forecast lease revenues. Total forecast revenues in FY 2010 and beyond are down by $200,000 per year (see figure 3.9 for detail).

Figure 3.9: Aquatic Revenues - Comparison of Previous Forecast with Current Forecast, 2000-2013



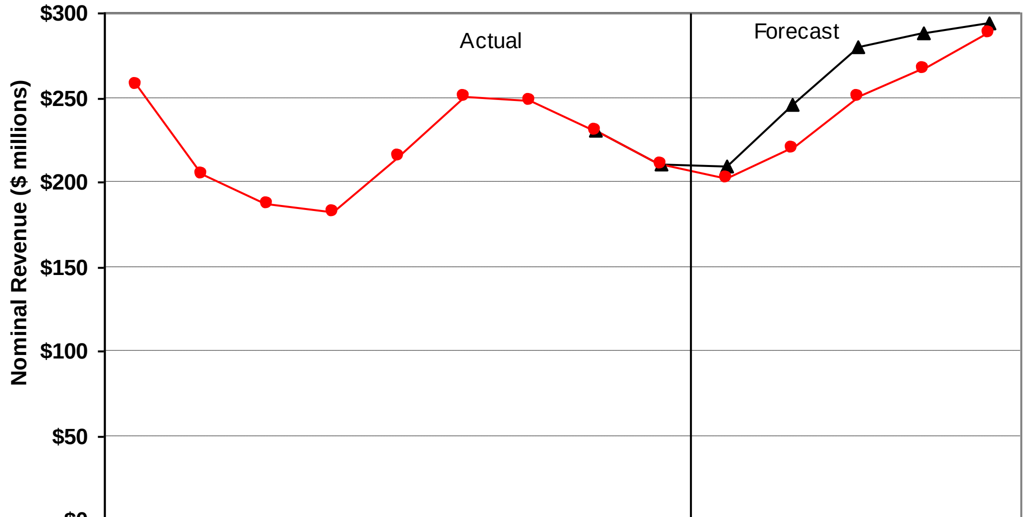
	00	01	02	03	04	05	06	07	08	09	10	11	12	13
Prev. Forecast									$20.4	$19.0	$19.5	$20.1	$20.6	$21.1
Current Forecast	$17.0	$12.7	$15.4	$18.0	$17.3	$17.9	$19.0	$22.1	$20.4	$19.3	$19.3	$19.9	$20.4	$20.9
Change										$0.3	$(0.2)	$(0.2)	$(0.2)	$(0.2)
% Change										1.7%	-1.0%	-1.0%	-1.0%	-0.9%

Fiscal year ending June 30

Total revenues from all sources

For the period (FY 2009-11), revenues are down just $61.9 million, or 6.5 percent, from the September Forecast. This reduction included a $60.6 million reduction in timber removal revenue and a $1.3 million in lease revenue. Revenues during the 2011-13 biennium are down by $27.5 million or 4.7 percent. (See **Figure 3.10** for detail.)

Figure 3.10: Total Revenues - Comparison of Previous Forecast with Current Forecast, 2000-2013



	00	01	02	03	04	05	06	07	08	09	10	11	12	13
Previous forecast								$230.9	$210.8	$209.7	$245.6	$279.9	$288.5	$294.6
Current Forecast	$257.3	$205.3	$187.6	$182.0	$215.4	$250.5	$248.4	$230.9	$210.4	$201.8	$220.1	$250.3	$267.1	$287.7
Change									$(0.4)	$(7.9)	$(25.5)	$(29.6)	$(21.4)	$(6.9)
%Change									0%	-4%	-10%	-11%	-7%	-2%

Fiscal year ending June 30

Some caveats

DNR strives to produce the most accurate and objective forecast possible, based on the department's current policy directions and information available at the time the Forecast is produced. Actual revenues will depend on future policy decisions made by the legislature and the department, as well as market conditions beyond our control. Listed below are issues that could potentially have a significant impact on future revenues from DNR-managed lands:

- **Housing Markets.** It has now been almost three years since the housing downturn began, and we now believe the bottom is about six months away. We now forecast it will be late CY 2009 before the excess inventory of new homes for sale is worked off and it will be another year before a meaningful recovery in forest products occurs. This Forecast is based on the scenario that a recovery of the U.S. housing market and therefore, higher timber prices will begin in FY 2011. It is possible that the housing recovery could be pushed back even further, which would likely result in lower timber sales prices than we forecast for FY 2011 and possibly beyond that.

- **Sales Volume.** As indicated earlier, the department currently plans to sell 784 mmbf of timber during the current fiscal year, which includes 85 mmbf of blowdown sales in addition to 699 mmbf of regular sales. That would be 32 mmbf (5 percent) above the sustainable harvest level for the remainder of the decade. Because of low timber prices a number of these sales are not bringing the revenue needed to support the cost of the sale. It is possible that some of these sales could be delayed into FY 2011 when we expect markets will recover. This would delay when that sale volume is harvested and delay when the revenue from the harvest is received.

- **Harvest Volume.** After falling for three years, the volume of sold timber under contract increased by 84 mmbf, or 18 percent, in FY 2007 as purchasers harvested less timber than the department sold. Removals exceeded sales again in FY 2008 and inventory increased an additional 181 mmbf, or 33 percent, as purchasers delay harvests and build inventory. Sales are forecasted to exceed removals again in the current fiscal year (FY 2009), this time by 144 mmbf. If the current forecast holds, the volume under contract will have grown over 400 mmbf, an increase of 87 percent to 877 mmbf over the last three years. In the current forecast, removals exceed sales in FY 2010 and FY 2011 then, beginning in FY 2012, removal levels and sales levels will be about equal and remain about equal in the last two years of the forecast as removals occur on average 12.5 months after the timber is sold (see **Figure 3.3**).

  However, the scheduling of removals within the terms of the contract (which currently ranges from three months to 36 months and averages 23 months) is at the purchasers' discretion. Purchasers could choose to delay removals even later than forecast and build their inventories of DNR timber under contract. This alternative is likely if demand does not recover as quickly as currently projected.

This alternative could significantly reduce near-term revenues below the levels in the current Forecast. On the other hand, purchasers could choose to accelerate removals if markets pick up earlier than expected.

These and other future circumstances will undoubtedly have an impact on future revenues. As events and market conditions develop, DNR will incorporate new information in future Forecast updates.

Distribution of revenues

Timber revenues by grant are based on:

- The value of timber in the inventory (sales sold but not yet harvested) as of August 31, 2008;
- Planned sales for the remainder of FY 2009 are based on planned sales volumes;
- The distribution of the sustainable harvest for FY 2010 through FY 2013.

Timber sales are expected to be harvested, on average, 13 months after they are sold. Distribution of lease revenues is assumed to be proportional to historic distributions.

Since a single timber sale can be worth over $3 million, dropping, adding, or delaying even one sale can represent a significant shift in revenues to a specific trust fund.

Management Fee Deduction. At its March 2008 meeting, the state Board of Natural Resources raised the management fee from 28 percent to 30 percent on federally granted state trust lands and from 22 percent to 25 percent on State Forest trust lands effective March 10, 2008. Without legislative action, the RMCA fee will return to 25 percent at the beginning of the 2009-11 biennium.

University Bond Retirement and University Permanent Funds. According to the Office of Financial Management's interpretation of generally accepted accounting principles, debt service funds (funds used to pay off debts), such as the University Bond Retirement Fund and the Washington State University Bond Retirement Fund, cannot receive revenue directly. Instead, revenue to these two funds is recorded to the respective permanent funds, and then an operating transfer is made to the appropriate debt service fund.

In FY 2007, $659,676 of revenue to the University Bond Retirement Fund was recorded to the University Permanent Fund but was not transferred to the University Bond Retirement Fund. As a result, the University Bond Retirement Fund was understated by $0.7 million, while the University Permanent Fund was overstated by the same amount.

Beginning in March 2008, the department began transferring revenues that otherwise would have gone to the University Permanent Fund to the University Bond fund to reverse the effect on revenues to the two funds. In FY 2008, $259,676 was transferred to the University Bond Retirement Fund from the University Permanent Fund. The remaining $400,000 will be transferred in FY 2009. The resulting revenues to the two funds and the changes from that forecast in June are shown in **Table 3.2**.

Revenue forecast tables

Tables 3.7 and 3.8 on the following pages provide forecast details. **Table 3.7** focuses on the source of revenues, and **Table 3.8** focuses on the distribution of revenues. Both tables include historical and projected figures.

Table 3.7 November 2008 Forecast by Source (In millions of dollars)

Change from Sept. 08 Forecast

Timber Sales	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Volume (mmbf)	528	565	677	784	667	667	667	667
Change	-	-	-	-	-	-	-	-
% Change	0%	0%	0%	0%	0%	0%	0%	0%
Price ($/mbf)	$371	$340	$247	$225	$250	$310	$360	$370
Change	$0	$0	$0	-$15	-$70	-$40	$0	$0
% Change	0%	0%	0%	-6%	-22%	-11%	0%	0%
Value of Timber Sales (In millions of dollars)	**$ 196.0**	**$ 191.7**	**$ 166.9**	**$ 176.4**	**$ 166.8**	**$ 206.8**	**$ 240.1**	**$ 246.8**
Change	$ -	$ -	$ -	$ (11.5)	$ (46.7)	$ (26.7)	$ -	$ -
% Change	0%	0%	0%	-6%	-22%	-11%	0%	0%

Timber Removals	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Volume (mmbf)	658	466	495	640	730	735	713	667
Change	-	-	-	(40)	0	(0)	26	-
% Change	0%	0%	0%	-6%	0%	0%	4%	0%
Price ($/mbf)	$309	$363	$317	$239	$233	$271	$302	$352
Change	$0	$0	$0	$3	-$34	-$38	-$41	-$8
% Change	0%	0%	0%	1%	-13%	-12%	-12%	-2%
Timber Revenue (In millions of dollars)	**$ 203.2**	**$ 174.7**	**$ 157.0**	**$ 153.2**	**$ 170.4**	**$ 199.4**	**$ 215.1**	**$ 234.5**
Change	$ -	$ -	$ -	$ (7.6)	$ (24.5)	$ (28.4)	$ (20.0)	$ (5.3)
% Change	0%	0%	0%	-5%	-13%	-12%	-9%	-2%

Lease Revenue	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Agricultural and Mineral	$ 17.8	$ 24.4	$ 23.8	$ 20.1	$ 21.1	$ 21.8	$ 22.4	$ 23.1
Change	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%	0%	0%
Commercial	$ 8.4	$ 9.7	$ 9.2	$ 9.2	$ 9.2	$ 9.2	$ 9.2	$ 9.2
Change	$ -	$ -	$ -	$ (0.2)	$ (0.4)	$ (0.6)	$ (0.8)	$ (1.0)
% Change	0%	0%	0%	-2%	-4%	-6%	-8%	-10%
Aquatic Revenue	$ 19.3	$ 22.6	$ 20.4	$ 19.3	$ 19.3	$ 19.9	$ 20.4	$ 20.9
Change	$ -	$ -	$ -	$ 0.3	$ (0.2)	$ (0.2)	$ (0.2)	$ (0.2)
% Change	0%	0%	0%	2%	-1%	-1%	-1%	-1%
Total Lease Revenue	**$ 45.6**	**$ 56.7**	**$ 53.4**	**$ 48.6**	**$ 49.6**	**$ 50.9**	**$ 52.0**	**$ 53.2**
Change	$ -	$ -	$ -	$ 0.1	$ (0.6)	$ (0.8)	$ (1.0)	$ (1.2)
% Change	0%	0%	0%	0%	-1%	-2%	-2%	-2%

Total All Source	**$ 248.7**	**$ 231.5**	**$ 210.4**	**$ 201.8**	**$ 220.1**	**$ 250.3**	**$ 267.1**	**$ 287.7**
Change	$ -	$ -	$ -	$ (7.5)	$ (25.1)	$ (29.2)	$ (21.0)	$ (6.5)
% Change	0%	0%	0%	-4%	-10%	-10%	-7%	-2%

Note: Trust land transfer is not included in distribution revenues.
This table excludes interest and Land Bank transactions, fire assessments, permits, and fees.
Totals may not add due to rounding.

Table 3.8: Novenber 2008 Forecast by Fund (In millions of dollars)

Change from Sept. 08 Forecast

Management Funds	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
041 RMCA - Upland	$ 38.2	$ 35.2	$ 32.7	$ 30.4	$ 27.8	$ 31.6	$ 34.0	$ 38.5
Change	$ -	$ -	$ 0.4	$ (1.4)	$ (3.3)	$ (5.3)	$ (4.8)	$ (1.1)
% Change	0%	0%	1%	-5%	-11%	-14%	-12%	-3%
041 RMCA - Aquatic	$ 8.3	$ 9.9	$ 8.6	$ 8.1	$ 8.0	$ 8.2	$ 8.5	$ 8.7
Change	$ -	$ -	$ (0.0)	$ 0.3	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)
% Change	0%	0%	0%	3%	-1%	-1%	-1%	-1%
014 FDA	$ 22.7	$ 20.8	$ 18.6	$ 19.7	$ 22.4	$ 26.2	$ 28.5	$ 28.8
Change	$ -	$ -	$ 0.2	$ (1.0)	$ (3.1)	$ (2.0)	$ 0.2	$ 0.0
% Change	0%	0%	1%	-5%	-12%	-7%	1%	0%
Total Management Funds	**$ 69.2**	**$ 65.9**	**$ 59.8**	**$ 58.2**	**$ 58.3**	**$ 66.0**	**$ 70.9**	**$ 76.0**
Change	$ -	$ -	$ 0.6	$ (2.2)	$ (6.4)	$ (7.4)	$ (4.6)	$ (1.2)
% Change	0%	0%	1%	-4%	-10%	-10%	-6%	-2%

Current Funds	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
113 Common School Construction	$ 64.3	$ 56.5	$ 56.6	$ 44.1	$ 57.4	$ 66.3	$ 70.5	$ 78.5
Change	$ -	$ (0.0)	$ (0.1)	$ (3.1)	$ (5.6)	$ (9.2)	$ (8.2)	$ (2.2)
% Change	0%	0%	0%	-7%	-9%	-12%	-10%	-3%
999 Forest Board Counties	$ 72.6	$ 63.6	$ 52.5	$ 55.2	$ 60.3	$ 69.7	$ 72.7	$ 74.4
Change	$ -	$ -	$ 0.0	$ (1.2)	$ (8.2)	$ (5.2)	$ (2.0)	$ (1.7)
% Change	0%	0%	0%	-2%	-12%	-7%	-3%	-2%
001 General Fund	$ 2.9	$ 2.9	$ 3.0	$ 1.7	$ 2.4	$ 3.3	$ 3.9	$ 4.0
Change	$ -	$ -	$ (0.0)	$ (0.5)	$ (0.3)	$ (0.3)	$ (0.0)	$ (0.0)
% Change	0%	0%	-1%	-23%	-10%	-10%	-1%	0%
348 University Bond Retirement	$ 2.3	$ 0.9	$ 2.3	$ 3.8	$ 1.6	$ 1.4	$ 2.1	$ 2.3
Change	$ -	$ -	$ (0.0)	$ (0.7)	$ (0.9)	$ (0.6)	$ (0.3)	$ (0.1)
% Change	0%	0%	0%	-15%	-36%	-29%	-12%	-2%
347 WSU Bond Retirement	$ 1.1	$ 1.1	$ 1.2	$ 1.1	$ 1.2	$ 1.2	$ 1.2	$ 1.3
Change	$ -	$ -	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)
% Change	0%	0%	0%	0%	0%	0%	0%	0%
042 CEP&RI	$ 3.8	$ 6.7	$ 3.8	$ 6.7	$ 6.4	$ 7.0	$ 6.4	$ 8.9
Change	$ -	$ -	$ (0.0)	$ 0.6	$ (0.3)	$ (1.0)	$ (2.5)	$ (0.2)
% Change	0%	0%	-1%	9%	-4%	-13%	-28%	-2%
036 Capitol Building Construction	$ 7.0	$ 6.0	$ 5.2	$ 8.1	$ 8.2	$ 8.5	$ 9.9	$ 10.6
Change	$ -	$ -	$ (0.1)	$ (0.2)	$ (1.7)	$ (2.0)	$ (0.8)	$ (0.2)
% Change	0%	0%	-1%	-2%	-17%	-19%	-8%	-2%
061/3 Normal (CWU, EWU, WWU, TESC) S	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1
Change	$ -	$ -	$ (0.0)	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%	0%	0%
Other Funds	$ 0.0	$ 0.5	$ 0.2	$ 0.2	$ 0.3	$ 0.2	$ 0.1	$ 0.5
Change	$ -	$ -	$ -	$ (0.1)	$ (0.2)	$ (0.4)	$ (0.4)	$ (0.0)
% Change	0%	0%	0%	-25%	-32%	-69%	-79%	-2%
Total Current Funds	**$ 154.2**	**$ 138.3**	**$ 125.0**	**$ 121.0**	**$ 137.9**	**$ 157.7**	**$ 166.9**	**$ 180.6**
Change	$ -	$ (0.0)	$ (0.2)	$ (5.2)	$ (17.0)	$ (18.8)	$ (14.3)	$ (4.3)
% Change	0%	0%	0%	-4%	-11%	-11%	-8%	-2%

(Continued)

Table 3.8(Continued): November 2008 Forecast by Fund (In millions of dollars)

Change from Sept. 08 Forecast

Aquatic lands Enhancement Account	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
02R	**$ 11.1**	**$ 12.7**	**$ 11.7**	**$ 11.2**	**$ 11.3**	**$ 11.6**	**$ 11.9**	**$ 12.2**
Change	$ -	$ -	$ (0.1)	$ 0.1	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)
% Change	0%	0%	0%	1%	-1%	-1%	-1%	-1%

Permanent Funds	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
601 Agricultural College Permanent	$ 4.7	$ 4.2	$ 4.3	$ 3.8	$ 3.8	$ 4.5	$ 5.2	$ 4.7
Change	$ -	$ -	$ (0.0)	$ (0.3)	$ (0.2)	$ 0.1	$ 0.5	$ (0.1)
% Change	0%	0%	0%	-7%	-4%	2%	11%	-2%
604 Normal School Permanent	$ 3.3	$ 1.8	$ 3.1	$ 3.6	$ 3.2	$ 3.0	$ 2.8	$ 3.9
Change	$ -	$ -	$ (0.0)	$ (0.2)	$ (0.4)	$ (0.7)	$ (1.1)	$ (0.1)
% Change	0%	0%	0%	-6%	-11%	-20%	-29%	-2%
605 Common School Permanent	$ 0.3	$ 0.1	$ 0.2	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4
Change	$ -	$ -	$ (0.0)	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%	0%	0%
606 Scientific Permanent	$ 5.6	$ 6.7	$ 6.0	$ 3.6	$ 4.7	$ 6.7	$ 8.7	$ 9.4
Change	$ -	$ -	$ (0.0)	$ 0.3	$ (0.9)	$ (1.8)	$ (0.6)	$ (0.2)
% Change	0%	0%	0%	10%	-17%	-21%	-7%	-2%
607 University Permanent	$ 0.5	$ 1.9	$ 0.5	$ 0.0	$ 0.4	$ 0.3	$ 0.2	$ 0.4
Change	$ -	$ -	$ (0.0)	$ (0.1)	$ (0.1)	$ (0.4)	$ (0.7)	$ (0.5)
% Change	0%	0%	-3%	-66%	-13%	-56%	-81%	-52%
Total Permanent Funds	**$ 14.3**	**$ 14.6**	**$ 14.1**	**$ 11.4**	**$ 12.6**	**$ 15.0**	**$ 17.3**	**$ 18.8**
Change	$ -	$ -	$ (0.0)	$ (0.2)	$ (1.6)	$ (2.9)	$ (2.0)	$ (0.9)
% Change	0%	0%	0%	-2%	-11%	-16%	-10%	-4%

Total All Funds	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Total	**$ 248.8**	**$ 231.6**	**$ 210.7**	**$ 201.8**	**$ 220.1**	**$ 250.3**	**$ 267.1**	**$ 287.7**
Change	$ -	$ (0.0)	$ 0.3	$ (7.5)	$ (25.1)	$ (29.2)	$ (21.0)	$ (6.5)
% Change	0%	0%	0%	-4%	-10%	-10%	-7%	-2%

Note: Trust land transfer is not included in distribution revenues.
This table excludes interest and Land Bank transactions, fire assessments, permits, and fees.
Totals may not add due to rounding.